

# MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

## DIVISION OF CREDIT UNIONS

### NEWSLETTER

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#### 2002 FINANCIAL PERFORMANCE

Missouri credit unions had another solid year during 2002 with some areas showing marked improvement over 2001. Most noticeable was the improvement in return on assets which improved to 0.9% from last years 0.69%. This fact along with a slower increase in shares of 6.05% increased net worth to 10.63% of assets reversing a three year downward trend.

Surprisingly, considering economic conditions, overall delinquency as a percentage of loans decreased slightly to 0.93%, while loans increased 6.1% bettering 2001's increase of 5.6%. Mirroring national trends first mortgages increased 15.9% and now represents 17% of total assets.

Fee income increased 18.7% from last year and appears to be an increasingly important part of the income picture as more credit unions introduced additional value added service to the members. Credit unions are continuing to utilize their position to innovate ways to serve members better and realize fee income for providing these benefits.

Web site utilization appears to be stagnating as all three types of sites showed marginal increases although the number of sites reported did increase 9% to 73. Intra office usage of data processing is increasing with more reported e-mail sites operating. Only one credit union reporting using manual bookkeeping.

Membership increases slowed well below the average of the past four years but still increased 1.5% to 1,167,920. Potential membership was reported as being up 24.7%.

Member business loans although still a small percentage of assets grew 193% and business loans granted this year increased 381%.

What can credit unions expect in the coming year? Interest rates have fallen to historically low levels with little potential of falling further. Credit unions should be aware that rates may remain stable for a while but the upside potential for interest rate increases is great. Pricing and maturity of assets and liabilities should be adjusted quickly when rates begin to increase.

The margins on automobile lending continue to be very tight with credit unions seeking alternative loans and

value added services. Credit unions should continue to think outside their traditional roles and explore more ways to serve the members and fee the users of these services in a fair and competitive manner.

The complete set of consolidated 5300 call report data for both Missouri chartered credit unions and all credit unions is available on the Division of Credit Unions' web site at <http://www.ecodev.state.mo.us/cu/>. This data provides information on trends both in this state and nationally and we encourage you to review these reports for insight into your individual credit union operation and performance.

#### MEMBER ACCOUNT VERIFICATION

RSMo 370.230 requires all credit unions to perform an account verification at least annually. A 100% sampling is required in one year with a statistically valid sample in the alternate year. This procedure has been routine for many years for those accounts that are maintained on the credit union's data system.

For some time now, the Division has been looking at ways to verify those accounts that are not maintained on the credit union's primary data system. A statutory or obligatory responsibility to the members requires a verification of these accounts in addition to those maintained 'in-house.' Third parties such as VISA, home mortgage processors, student loan providers, sub-prime lending companies, etc. have varying degrees of cooperation concerning verification processes.

To comply with Missouri statutes, members need to be advised that they should be verifying all share and loan balances. Members should also be told to contact the credit union supervisory committee or auditor with variances. To accomplish this, the following or closely worded statement should be added to the credit union's annual account verification notice if any share or loan accounts are serviced by a third party:

"During the year you are provided with statement balances from associates of the credit union. Please verify these statements with your own records. If there is a discrepancy, please notify the above referenced party (Supervisory Committee or auditor)."

Compliance with this requirement should be relatively easy for credit unions and will prove to be a benefit to

both the credit union and its members. Thank you for your cooperation in complying. Examiners will be reviewing these notices at the next examination.

## CREDIT UNION COMMISSION MEETS

The Credit Union Commission met on January 28, 2003 by telephone conference call. Commission members in attendance were Bill Humpfer, Sharon Ichord, Cathy Stroud, Pat Macdonald, Lori Levine and John Hanneke. Others attending were Christie Kincannon, Todd Jones, and Mike Wambolt, Attorney General's Office; Becky Kilpatrick, Attorney, Department of Economic Development; Zurett Merridith and John P. Smith, Division of Credit Unions.

The Commission reviewed the decision issued January 14, 2003 by the Western District Court of Appeals affirming Cole County Circuit Court decision denying standing in the Telcomm Credit Union appeal. The Commission discussed who had standing before the Commission in appeals of decisions made by the Director, Division of Credit Unions in field of membership cases. The Commission directed legal counsel to file a motion requesting modification of the opinion by the Western District Court of Appeals in the Telcomm Credit Union appeal.

The Commission's next regular meeting is scheduled for May 7, 2003 in Jefferson City. Commission meetings are open to the public but portions may be closed as provided by the Missouri Sunshine Law.

## FIELD OF MEMBERSHIP APPLICATION UPDATE

**Springfield Telephone Employees Credit Union** (now **Telcomm Credit Union**) submitted an application to include those persons who reside or work in the 417 telephone Area Code and the 573 (bordered on the north by I-70) telephone Area Code. The Director approved the expansion of **Springfield Telephone Employees Credit Union** to those in the 417 Area Code, but not the 573 Area Code. The decision was published in the November 15, 2000 Missouri Register. On November 30, 2000 the Missouri Bankers Association (MBA) and Century Bank of the Ozarks (CBO) filed an appeal of the decision to the Credit Union Commission. The Commission heard the appeal on March 29, 2001. On May 24, 2001 the Commission upheld the decision of the Director. On August 16, 2001, the decision was released and the Director filed **Springfield Telephone Employees Credit Union's** amended bylaws with the Secretary of State. On September 14, 2001, the MBA and CBO filed a petition for administrative review in Cole County Circuit Court. On November 19, 2001, a hearing was held before Judge Tom Brown, Division 1, Circuit Court of Cole County. The motion to refer the case to another division of the court was granted and the case was referred to Judge Byron Kinder, Division 2. A motion to dismiss the

case for lack of standing was heard on January 3, 2002. On January 29, 2002 the court ruled the plaintiffs lack standing to maintain causes of action set forth in their petition and ordered the plaintiffs' petition be dismissed. On March 11, 2002 the MBA and CBO filed an appeal of the decision in the Western Appellate Court of Appeals. Appellant's briefs were due June 3, 2002 with the respondent's briefs due July 3, 2002. A hearing by the Western Appellate Court was held on October 3, 2003 in Kansas City. On January 14, 2003, the Appellate Court upheld the decision of Cole County Circuit Court. On January 14, 2003, the MBA and CBO filed motions for a rehearing and transfer to the Missouri Supreme Court.

**South Community Credit Union** submitted an application for those who work or reside in Zip Codes 63109, 63111, 63116, 63123, 63125, 63128, 63129, and Crawford County, Franklin County, Gasconade County and Washington County. **Central Communications Credit Union** submitted an application for those persons who reside or work in the 816 telephone Area Code. The Director approved the applications submitted by **South Community and Central Communications Credit Unions**. These decisions were published in the November 15, 2000 Missouri Register. On November 30, 2000 the MBA and two local banks located in each of the two applicants' field of membership expansion areas filed appeals of the decisions to the Credit Union Commission. The Commission received the record of appeals from all parties on May 24, 2001. On August 9, 2001, the Commission upheld the decisions of the Director. The written decisions were released on January 25, 2002. On February 21, 2002, the MBA and the local banks filed a petition for administrative review in Cole County Circuit Court. Both cases were assigned to Judge Tom Brown, Division 1. On April 17 the cases were reassigned to Judge Byron L. Kinder, Division 2 and a motion was entered to stay the proceedings until the outcome of the Springfield Telephone Employees case was decided. The cases can be followed on the internet at <http://casenet.osca.state.mo.us/casenet/>; the case numbers are 02CV323402 and 02CV323401.

**Educational Employees Credit Union** (now **Vantage Credit Union**) submitted an application for those who live or work in St. Louis County, St. Charles County, Jefferson County, Cape Girardeau County and Franklin County. The application was published in the December 15, 2000 Missouri Register. The Director approved the application and his decision was published in the February 15, 2001 Missouri Register. On March 1, 2001 the MBA and two banks located in the applicant's field of membership expansion area filed an appeal of the decision to the Credit Union Commission. The Commission received the record of appeal of **Educational Employees Credit Union** on October 19, 2001 and established briefing schedules. On March 5, 2002, the Commission dismissed the appeal due to lack of standing. On July 18, 2002 the MBA and the two banks filed a Petition in Mandamus in Cole County Circuit Court. An order by Cole County District Court

staying the case was entered on December 2, 2002. The case can be followed on the internet at <http://casenet.osca.state.mo.us/casenet/>; case number 02CV324797.

**City Utilities Credit Union** submitted an application for community residents and workers in Greene and Christian Counties. The application was published in the June 1, 2001 Missouri Register. The Director approved the application and his decision was published in the August 1, 2001 Missouri Register. On August 14, 2001 the MBA and a local bank located within the applicant's field of membership expansion area filed an appeal of the decision to the Credit Union Commission. On August 8, 2002 the Commission heard and denied the appeal for lack of standing. The decision was released on December 9, 2002. On January 2, 2003, MBA and the local bank filed a Petition in Mandamus in Cole County Circuit Court. The case can be followed on the internet at <http://casenet.osca.state.mo.us/casenet/>; case number 03CV323001.

**First Community Credit Union** submitted an application for individuals who reside or work in the counties of Lincoln, Warren, Franklin, Washington, St. Francois, Ste. Genevieve, Pike, Montgomery, Gasconade and Crawford in the state of Missouri and the City of St. Louis. The application was published in the August 1, 2002 Missouri Register. The Director approved the application and his decision was published in the September 16, 2002 Missouri Register. On September 26, 2002 the MBA and a local bank located within the field of membership expansion area filed an appeal of the decision to the Credit Union Commission. The Commission at their October 31, 2002 meeting established the briefing schedule for the appeal. The Commission considered the appeal at their January 15, 2003 meeting heard but took no action.

**Alliance Credit Union** submitted an application for those who work or reside in St. Charles County or St. Louis County. The application was published in the November 15, 2002 Missouri Register. The Director approved the application and his decision will be published in the January 16, 2003 Missouri Register. On January 30, 2003, the MBA and Allegiant Bank filed an appeal of the Director's decision with the Credit Union Commission. The Commission at a future meeting will consider the appeal.

**St. Louis Postal Credit Union** submitted an application for those who live or work in the Zip Codes 63005, 63017, 63042, 63043, 63044, 63126, 63127 and St. Charles County. The application was published in the December 2, 2002 Missouri Register. The director approved the application and his decision will be published in the January 16, 2003 Missouri Register. A fifteen calendar period for appeal must occur before the decision is final. On January 30, 2003, the MBA and Midwest Bank Centre filed an appeal of the Director's decision with the Credit Union Commission.

**United Community Credit Union**, an Illinois chartered credit union, submitted an application for those who live or work in the Missouri counties of Lewis, Ralls and Marion. The application was published in the January 2, 2003 Missouri Register. The director approved the application and his decision was published in the February 18, 2003 Missouri Register. A fifteen calendar period for appeal must occur before the decision is final.

### FROM THE DIRECTOR

Credit union management and their members should be pleased with the overall performance of Missouri credit unions during calendar year 2002. The complete set of consolidated 5300 call report data for both Missouri chartered credit unions and all credit unions is available on the Division of Credit Unions' web site at <http://www.ecodev.state.mo.us/cu/>.

The Assistant Financial Examiner I position in the St. Louis area has been filled. Brad Schone will begin work in March 2003.

As mentioned in the last Newsletter the Division of Credit Unions' web site under "What's New" will publish topics of current interest or repeated findings in credit unions being examined. The information published in this Newsletter on member account verification is now on the web site under "What's New". We welcome your suggestions on topics of interest or information that should be addressed. Similarly, we invite questions or comments on the topics we write about. They can be sent by e-mail to [cu@ded.state.mo.us](mailto:cu@ded.state.mo.us), calling the Division of Credit Unions at (573) 751-3419 or contacting your credit union's assigned examiner.

That is all for this time.

**John P. Smith, Director**